Enterprising Rural Families™

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Are You Ready for Retirement?

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Many small business owners and managers are so focused on the task of making a success of the business that retirement and its preparations can sneak up on them. If you are in this boat and not sure whether your retirement funds will support you after you turn the business over to your successors, here are some strategies that may help.

Financial Resilience

Financial resilience is the ability to withstand economic life events, both negative and positive. These events could encompass such things as the loss of your primary income or the birth of a grandchild. Preparing for financial resilience is important because nothing remains static. Your business, your position in it, and your personal and family situation will continue to change and your financial picture will change with it.

Beside accelerated health care costs, the biggest fear of elders is outliving their retirement savings or income source. Think now about what you will do to cover your health care after you leave the business. Will your insurance continue? Will Medicare be sufficient for your needs? If you, or someone you will care for, are not in good health, perhaps you need to consider adjusting the life expectancy and health care costs in later life plans and this may mean putting more into retirement accounts now.

Are you prepared for the loss of income and expenses associated with the possible death of a spouse? A death requires many decisions which may affect your financial future. If you will receive funds from a retirement account or life insurance policy, place these monies in a CD or money market account until there is time to explore your long-term alternatives.

This newsletter is an instrument of the Enterprising Rural Families: Making It Work program of University of Wyoming Extension. For further information concerning the Enterprising Rural Families program or on-line course contact information@eRuralFamilies.org or go to http://eRuralFamilies.org/.

Tip of the Month

Making Family Business Decisions

To effectively work as a family team, it is important to hold business meetings. Many families underestimate the importance of regular family business meetings. Business meetings provide the vehicle for making important business decisions. Below are ideas for holding successful family business meetings.

Business setting – Meetings should be held in a business environment. If possible meet in an office. If you use the kitchen table, be sure the table is clear of food or other items. No one should be seated in a position of power; and minimize distractions.

Meet regularly – Meetings should be held on a regular schedule. It is easy to postpone family meetings; especially if family members don't attach much importance to them. If a meeting has to be cancelled…reschedule. Make holding regular meetings a habit.

Prepare an agenda – Prepare an agenda in advance and if possible distribute it before the meeting and ask family members if there are other items for the agenda. The agenda gives the meeting structure and keeps the discussion focused on the important topics.

Prepare materials – Prepare materials on important decisions in advance and give to family members. This would include financial materials, information on proposed capital expenditures, etc.

Minutes of the meetings – Keep formal minutes of the meeting. Appoint someone to take notes. Minutes provide a record of what topics were discussed and what decisions were made. Unless minutes are kept, disagreements may emerge later over what decisions were reached.

Family decision-making provides an environment where the family works towards goals that all family members have in common. Family members not involved in decision-making will often work towards individual goals that may be in conflict with family goals.

(Source: Don Hofstrand, co-director Ag Marketing Resource Center, Iowa State University. www.extension.iastate.edu/agdm.)

"Doing some pre-planning and making some sacrifices now could make a gigantic difference in your comfort level later."

If you have investments, be prepared for losses in the market. Maintain your patience and long-term perspective. Even at 55, you may have another 30 years of investing ahead. Don't jump in and out of the market. Limit your withdrawals during market downturns and avoid the risk of outliving your retirement assets.

You should maintain three areas of resources as you move toward and into retirement. First, support and build your monetary resources through emergency savings (at least three months of living expenses), health insurance, and maintaining employment until you have accumulated the funds to provide an adequate retirement income. Secondly, continue to build your human capital by continually honing your knowledge, skills, and experience and living healthy. And, third, maintain your social capital by placing importance on relationships such as family, friends, co-workers, neighbors, spiritual supporters, and others.

In addition, there are six strategies that will help you face the future with confidence.

1. Maintain a low debt-to-income ratio. Your consumer debt should be limited to no more than 15% of your monthly income. For example, if you are making $275 per month in consumer debt payments and your net take-home is $2500, you would divide $2500 into $275, which would show your ratio is 11%. If your debt-to-income ratio rises above 20% you are in the danger zone.
2. Maintain an emergency fund of at least three months of living expenses. This should be in liquid assets such as savings or short-term CDs that can be accessed quickly in an emergency. In severe economic times or market down turns, the preferred size of this fund should be closer to five or six months of living expenses.
3. Keep your skill set sharp. Never consider your education and training finished. Keep developing your marketable skills in case you need to get back into the income-earning field again, either part-time or on a full-time basis.
4. Purchase adequate health, life, and disability insurance. Illness, disability, or death can quickly throw the best laid plans into a tail spin.
5. Practice good health habits. Maintain a proper diet and healthy weight. Exercise properly (retirement is not the time to become a "couch potato") and get sufficient sleep. Health deteriorates with age anyway, so do what you can to give yourself the advantage.
6. Increase your knowledge of financial topics. Learn basic investment principles and the characteristics of your specific securities. You can learn more about basic investing by going to www.extension.org/pages/investing and downloading the *Investing for Your Future* guide.

Catch-Up Strategies for Late Savers

There are three basic profiles of those trying to catch up on their retirement funding.

1. Procrastinators who didn't bother, or were unable, to build an adequate retirement fund.
2. Those who are saving, but got started late and are trying to make up time.
3. Those who have been saving, but lost ground due to a market down turn or an emergency that drained their retirement funds.

There are two basic strategies in attempting to make up ground in dealing with retirement. One is to take action before retirement to increase your savings. The other is to take actions after retirement to decrease the amount of savings required to support your expenses and lifestyle.

Before retirement, some of the things you can do to help you build your retirement accounts are:

- Increase the regular amounts you are putting into your savings and retirement accounts.
- Curtail your lifestyle and expenses in various ways so you can put more away now when you have it.
- Accelerate your debt payments. This will reduce interest expense and will give you more time without the debt expense, which can then go into retirement funds.
- "Moonlight" for extra income and put the earnings into your retirement savings. Chances are you are healthier now than you will be after retirement, so working extra now may be easier than working later.
- Invest aggressively. Making substantial investments in stock, bonds, and funds which provide a higher return until you reach retirement age can accelerate your earnings. However, be aware that the more an investment may return, the higher the risk that it may also lose at a

higher rate. Follow the advice of a seasoned investment advisor and stay in for the long term.

- Automat your investment deposits. If your investment deposits are taken out of your paycheck, or return on the business, automatically, it will be easier for you to adjust your lifestyle to live without it.
- Maximize tax-deferral opportunities by investing in funds such as IRAs which will be taxed when you withdraw the funds, rather than when you are earning the funds. Your income level during retirement, or when you withdraw the funds, will likely be lower than when you are working and, consequently, the distributions may be taxed at a lower rate.
- Preserve any lump-sum distributions from investments by rolling them into another tax-deferred saving plan. Adding a sizable lump-sum distribution to your annual income now may push you into a significantly higher tax bracket. Rolling those funds into another tax-deferred plan may save dollars for your pocket later.

After retirement, some of the strategies you might take to squeeze more from your retirement funds would be:

- Trading down to a smaller home. Many retired persons or couples no longer require the space they had when they had a family or were engaged in a more active lifestyle. You may be able to significantly alter your financial picture by eliminating remaining real estate debt or using the equity in a larger home to purchase a smaller one. Smaller homes usually also mean lower utility costs and maintenance.
- Moving to a less expensive location. Is there a neighborhood or community where housing and living expenses would be cheaper? Weigh this against any increased travel costs to visit family and friends from the new location.
- Delaying retirement. Every month you continue to work increases your Social Security benefit, adds to any payments into retirement funds you are maintaining, and reduces the amount of distributions you must take from retirement funds to support your life.
- Working during retirement. The number of persons delaying retirement, working part-time, or consulting during retirement has grown significantly. Consider going back to work in the field you know or taking a part-time job to supplement your retirement earnings.
- Reverse mortgage or a sale-leaseback on your home. Reverse mortgages are available to those 62 years of age or above and are based on the equity in your home. It must be your primary residence and there is no minimum credit or income requirement. The money realized from a reverse mortgage can be received as a lump sum, cash payments, or a line of credit with the bank.
- Tax efficient asset withdrawals. Carefully consider the timing and amount of distributions from retirement assets so as not to push your income into a higher tax bracket than necessary.

Catching up on retirement assets requires making trade-offs. It may be tough to lower your standard of living now, but the added comfort of increased retirement income might be substantial.

One might also consider combining various strategies to improve their retirement position. For example, you might start investing more in your 401(k) while at the same time moving to a less expensive location. You might do some "moonlighting" while you delay retirement for a few years, or you could invest more aggressively and, at the same time, downsize to a smaller home.

The two most effective catch-up strategies found by those looking to retire have been working an additional two or three years, and postponing collection of their Social Security benefits until they reach their full retirement age.

For additional help in improving your retirement picture, download the *Guidebook to Help Late Savers Prepare for Retirement* by the National Endowment for Financial Education at www.smartaboutmoney.org. Type "Late Savers Guidebook" in the search box.

Retirement Strategies Increasingly Important

As we tend to live longer and more productive lives, and as more and more baby-boomers retire, having adequate plans to support your desired lifestyle during retirement become more important. Doing some pre-planning and making some sacrifices now could make a gigantic difference in your comfort level later.

References:

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- *Financial Recovery in Later Life*
- *Catch-Up Retirement Planning Strategies for Late Savers*
- *Creating a Retirement "Paycheck"*
- *How to Make Minimum Withdrawals from Retirement Savings Plans*
- *Making the Most of IRAs and Other Tax-Deferred Retirement Savings*